

Message Text

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TAGS: PINT, ENRG, CA

SUBJ: DEPUTY PRIME MINISTER MEETING WITH ALBERTA OIL AND
GAS EXECUTIVES

REF: CALGARY 0145, CALGARY 0155

1. DURING TRUDEAU'S VISIT TO CALGARY, DEPUTY PRIME MINISTER MACEACHEN HELD SMALL PUBLIC MEETING WITH OIL AND GAS EXECUTIVES AT WHICH INDEPENDENT PETROLEUM ASSOCIATION OF CANADA (IPAC) REPRESENTATIVES PRESENTED POSITION PAPER CALLING FOR PROMOTION OF ADDITIONAL GAS SALES IN EASTERN CANADA AND GAS EXPORTS TO U.S. THRUST OF IPAC PAPER IS THAT CURRENT HIGH LEVEL OF EXPLORATION AND DEVELOPMENT OF CANADIAN GAS RESERVES WILL CONTINUE ONLY IF INCREASINGLY LARGE SURPLUS OF PRODUCEABLE GAS CAN BE MARKETED. IPAC REPS STATED CURRENT GAS SURPLUS WAS NOT A BUBBLE BUT WOULD PROBABLY EXTEND INTO 1990'S (ASSUMING A CONTINUED HIGH LEVEL OF EXPLORATION ACTIVITY). ACCORDING TO IPAC, MANY SMALL CANADIAN OIL COMPANIES HAVE A GROWING CASH FLOW PROBLEM WHICH REQUIRES EARLY RESOLUTION.

2. IPAC REPS EMPHASIZED THAT INCREASED GAS USAGE OFFERED
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BEST PROSPECT FOR SHIFTING CANADIAN ENERGY USERS TO INDIGENOUS FUELS. THEY PROPOSED FACILITATING ADDITIONAL GAS SALES IN ONTARIO AND WESTERN QUEBEC AND NEW GAS SALES IN EASTERN QUEBEC AND THE MARITIMES THROUGH: (1) DRASTIC REDUCTION IN CURRENT SUPPLY OF CHEAP RESIDUAL FUELS IN EASTERN CANADA THROUGH MODERNIZATION OF EXISTING REFINERIES; (2) REMOVAL OF SUBSIDY ON IMPORTED FOREIGN CRUDE; (3) WORLD

PRICES FOR CANADIAN CRUDE; (4) REDUCTION OR ELIMINATION OF EIGHT PERCENT QUEBEC GOVERNMENT GAS TAX; AND (5) (BY IMPLICATION) BUILDING OF Q & M PIPELINE (SEE 78 CALGARY A-09).

3. WHILE IPAC REPS SAID THAT PRIORITY SHOULD BE GIVEN TO EXPANDING CANADIAN USAGE OF GAS, THEY EMPHASIZED THAT ONLY NEAR TERM SOLUTION TO PROBLEM OF MARKETING SURPLUS CANADIAN GAS WAS INCREASED SHORT TERM EXPORTS TO THE U.S. AS THESE COULD BE IMPLEMENTED MORE RAPIDLY THAN AN EXPANSION OF CANADIAN GAS MARKET. IPAC REPS STRESSED THAT ADDITIONAL GAS SALES TO THE U.S., ON A SWAP BASIS IF NECESSARY, WOULD HELP MAINTAIN HIGH LEVEL OF ACTIVITY IN THE OIL AND GAS INDUSTRY, GENERATE EMPLOYMENT AND TAXES BEYOND THE PRODUCING PROVINCES, CONTRIBUTE TO CANADA'S ADVERSE BALANCE OF PAYMENTS, AND BE PHASED OUT AS THE CANADIAN MARKET EXPANDS.

4. COMMENT: MACEACHEN'S DEMEANOR THROUGHOUT THE MEETING WAS CAUTIOUS AND RESERVED. HE EXPRESSED SUPPORT IN PRINCIPLE FOR IPAC OBJECTIVE OF INCREASING CANADIAN ENERGY SELF-RELIANCE BY SHIFTING FROM IMPORTED OIL TO GAS AND PROMISED IPAC A DETAILED WRITTEN RESPONSE TO ITS PAPER. MACEACHEN SEEMED PARTICULARLY INTERESTED IN THE Q & M PROJECT AND ASKED INDUSTRY REPS ABOUT THE MARKET SITUATION IN MARITIMES AND APPARENT NEED FOR SUBSIDY. MACEACHEN INDICATED THE CANADIAN GOVERNMENT WOULD HAVE TO MOVE CAREFULLY IN ADOPTING POLICIES WHICH WOULD BRING ABOUT A CHANGE
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IN CANADA'S ENERGY MIX. MACEACHEN REMARKED THAT THERE DID NOT SEEM TO BE MUCH INTEREST IN THE U.S. IN ADDITIONAL GAS EXPORTS AND ASKED INDUSTRY OFFICIALS WHETHER THEIR CONTACTS WITH U.S. COMPANIES INDICATED OTHERWISE. IN RESPONSE, IPAC'S REPS HEMMED AND HAWED. APPARENTLY MACEACHEN WAS UNAWARE OF PAN ALBERTA GAS SALE PROPOSALS (CALGARY 0145). QUESTIONED ON WHETHER THE CANADIAN GOVERNMENT WOULD SUPPORT ADDITIONAL GAS SALES TO THE U.S. IF THE ALASKAN HIGHWAY PIPELINE WERE NOT BUILT, MACEACHEN SAID THAT CONSTRUCTION OF ALCAN PIPELINE WAS A BASIC ASSUMPTION THAT FEDERAL GOVERNMENT MADE WHEN IT CONSIDERED THE GAS SWAP POSSIBILITY. THE DEPUTY PM INTIMATED THAT GOC POSITION ON GAS EXPORT ISSUE WOULD HAVE TO BE RE-EVALUATED IF THIS ASSUMPTION WAS NO LONGER VALID. (COPIES OF IPAC PAPER BEING AIRPOUCHED EUR/CAN, EB/ORF/FSE, AND EMBASSY OTTAWA).
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